Remarks by William I. Campbell
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Philip Morris U.S.A.

and

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Vice President and Deputy Treasurer
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Bill Campbell —

Good morning. We are here today to give you an overview of Philip Morris' business results. I will be discussing our domestic tobacco business. Hoby Millington, Philip Morris Companies' Vice President and Deputy Treasurer, will be providing you with a brief account of Philip Morris' other businesses including International Tobacco.

The last time we all were in this room together, Philip Morris USA had just announced a new pricing strategy for Marlboro. In the year and a half since we made that announcement you could say that our business has been a "Tale of Two Cities."

On the one hand, PM USA has achieved some extremely positive business results. On the other, we have faced an increasingly hostile political and regulatory environment.

This morning I'd like to explore both sides of that equation. I'll begin by discussing the legal and legislative issues our industry faces and our strategies for responding to them. Then I'll bring you up to date on the excellent business results we've achieved since April, 1993 and discuss the continuous improvement initiatives that are strengthening our competitiveness.

Recently, our industry has experienced increased attacks ranging from proposals with excessive federal excise taxes to claims of nicotine spiking.

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Over the next few minutes, I'll touch on the major issues currently facing PM-USA. I want you to understand that we have a battery of options to make our positions known, and we intend to employ the full extent of our legal alternatives to protect our consumers' and our rights to market the world's most famous trademarks. Just keep in mind that I am not a lawyer, and I'm not offering legal opinions or advice.

Let me begin with Health Care Legislation and the Federal Excise Tax. As you know, both issues have been greatly debated, and as the 103rd Congress comes to a close, they remain unresolved.

Going forward, we anticipate that some Health Care Legislation of reduced scope will be considered by Congress. Undoubtedly, any proposal will need funding, and an increase in the Federal Excise Tax on cigarettes would likely be one of the sources of revenue.

Fortunately, over the past two years, the potential impact of health care legislation on our business has been minimized as the economic impacts of an excessive FET have become better understood. Initial proposals included a $2.00 FET with the increase slated to go into effect all at once, while current propositions in committee are talking about a 45¢ FET phased in over six years. In the event of any new Health Care proposals, I am confident that the new Congress will continue to consider their constituents' varied interests.

We also are facing some new challenges under the broad umbrella of alleged Health-related lawsuits. I am not going to comment on the specific lawsuits outstanding except to say that we are confident in our position and our ability to successfully defend our business.

We also are facing challenges in the area of environmental tobacco smoke.

Smoking restrictions have been enacted in many parts of the country stemming from the publicity generated by the Environmental Protection Agency's risk assessment. We believe the EPA's findings were based on faulty science and we're piercing the core of this misinformation by suing the EPA so that a court can determine the accuracy of their risk assessment.

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We also have sued states and municipalities for enacting unconstitutional smoking bans. In Maryland, we are one of a number of plaintiffs that have been successful in staying the effective date of proposed workplace smoking regulations. In Washington State, a motion to stay smoking regulations was rejected, making the effective date of the restrictions October 10th. An appeal to the full Court of Appeals has been filed. In both states, we believe we have good prospects of success on the merits of the cases.

We also have decided to take our positions on smoking-related issues directly to the American public with our new "Where We Stand" ad campaign. We believe, quite simply, that most Americans are inherently fair-minded and that conflicts between non-smokers and smokers can be resolved. Through the "Where We Stand" campaign, we hope to change the debate about smoking to a reasonable, fact-based dialogue.

The "Where We Stand" ad campaign complements our efforts across the country in support of accommodation.

One of the most important challenges for equal rights of both smokers and non-smokers has been Proposition 188 in California. As you are aware, yesterday ....

Yesterday the voters of California rejected Proposition 188, a ballot initiative that would have provided for tough but reasonable regulation of smoking in the state. As a result, AB13 a law which virtually bans smoking in restaurants, workplaces and other public places will take effect in January.

Although we at Philip Morris U.S.A. are disappointed in these results, nearly one-third of Californians already are subjected to smoking bans in restaurants. We believe people will find other places to enjoy the pleasure of smoking despite this infringement on their personal freedom. The real burden of this onerous law will be borne mostly by hotels, restaurants and other businesses which could be hurt by a decline in tourism.

As a final comment on this issue, smoking restrictions are not new. In fact, today over half of the work places in this country are smoke free, and we have not seen a change in the industry's historical decline rate.

Finally, let me turn to the FDA's interest in gaining authority over cigarettes which stems from allegations that manufacturers manipulate nicotine levels to addict smokers.

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Historically, the FDA has exercised no regulatory authority over traditionally marketed cigarettes, and it was clear they wanted no such authority. The FDA is responsible for regulating food, drugs and cosmetics, and cigarettes have always been viewed by the FDA as "none of the above."

FDA Commissioner, Dr. David Kessler, clearly is more sympathetic to anti-tobacco positions, and wants to be given authority over tobacco.

This could be done in two ways:

First: the FDA could assert that nicotine is "a drug" under present law and that some or all cigarettes are drug delivery devices.

To meet these criteria a product must, among other things, be "intended" for use in the treatment or prevention of disease, or be "intended" to affect the structure or function of the body.

Over the years, the FDA and the courts have taken the posture that these criteria mean the FDA can regulate cigarettes only when manufacturers make express therapeutic claims in advertising or labeling or in some other aspect of selling cigarettes.

If the FDA were to regulate cigarettes under current law, we would be required to prove cigarettes are safe and effective, and according to the FDA, that cannot be done.

In other words, cigarettes could not remain on the market and the FDA recognizes this.

The second way a new regulatory environment might be created is that Congress could legislate that cigarettes are a new class of products to be regulated by the FDA. We don't believe there is an overwhelming desire in Congress for such a bill. However, we do believe we will be dealing with the issue of FDA regulation for the foreseeable future.

We believe the FDA's efforts to gain authority over cigarettes were stepped up as a result of the ABC "Day One's" claim that manufacturers artificially boosted the nicotine content of cigarettes. We have filed suit against ABC for $10 billion as a result of this accusation, and we have a trial date set for next June.

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In summary, the political and regulatory challenges facing our industry are tough, but, we are taking aggressive actions to protect our business. For example,

- we're suing the EPA
- we're running our "Where We Stand" ad campaign
- we're suing ABC as well
- and, we're fighting smoking bans and restrictions.

But before I discuss PM-USA's business results, I'd like to comment on the size of the U.S. cigarette industry as a whole. As you know, industry volume has been somewhat volatile in recent years. However, if we smooth the data, you can see that the industry has remained on its historical decline rate of 2 to 2.5 % per year.

Now I'd like to get to the part of the story I really enjoy telling -- the sensational business results PM USA has enjoyed since April 1993.

First, understand that our primary objective is and will continue to be maximizing our long-term profitability and cash flow. As you know, a significant amount of the profitability in our cigarette business is generated by Premium Brands.

When we announced our new pricing strategy on April 2, 1993, our objective was to narrow the price gap between Marlboro and our discount products to a point where consumers would once again prefer Marlboro, basing their purchase decisions on brand quality, imagery, and preference, rather than on price alone.

This strategy has been a success. According to Nielsen retail take away data, since March 1993, the premium segment's overall share of market has increased 6.5 share points to 68.8% in August, 1994, and we have been the primary beneficiary of that growth.

As this slide illustrates during the March '93 to August '94 time period, our premium brands' share is up 6.8 points to 37.8%, while our discount share decreased 2.0 points to 8.5%. As a result, our overall share of the market has increased 4.8 share points to 46.3% in August.

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Let me be clear about PM-USA's share gains. For the most part, Marlboro and our other premium brands have reclaimed smokers lost to other cigarettes. As you can see from this slide which plots monthly Nielsen shares from January, 1988 through August, 1994, these share gains simply have put PM-USA back on its historical, long-term growth trend.

Marlboro is the most important contributor to this share growth, up 7.0 points to 29.1% share nationally. In convenience stores, Marlboro's and the industry's most important trade channel, Marlboro's share has increased 7.7 share points to 32.1% in August, 1994. As an added plus, the growing popularity of Marlboro has become a tool for many retailers to draw additional smokers into their stores.

We believe that the improved affordability of Marlboro, coupled with its unparalleled imagery and the tremendously popular Marlboro Adventure Team and Marlboro Country Store promotions, are critical to this brand's sustained growth.

We constantly monitor Marlboro's retail price relative to lowest priced discount products. Marlboro's average pack price is $1.93, about 60¢ higher, on average, than lowest discount prices. Although the price gap has increased a few pennies over the past year, the percentage gap is now at 45%, it is still significantly lower than the 89% price differential seen in March, 1993.

We are continuing to support Marlboro with traditional equity-building marketing, including Marlboro Racing, as well as trade and consumer promotions that build on the success of Marlboro Adventure Team. Adventure Team was one of the boldest consumer promotions ever launched by PM-USA, and it welcomed our consumers back to Marlboro Country. We believe it was one of the most successful consumer products promotions in history.

Our Adventure Team results were light years ahead of typical retail incentive programs. Over 9 million people placed orders resulting in the shipment of almost 30 million branded Marlboro items across the country. This means that a total of about 10 billion miles have been redeemed, more than the distance between here and Pluto, and back.

Marlboro Country Store has picked up where Adventure Team left off. Our research tells us that consumers are as satisfied with Country Store as they were with Marlboro Adventure Team. Through the sheer size and scope of these programs, we have made Marlboro the third largest mail order business in the U. S.

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We also are defending our other premium brand franchises, Merit, Virginia Slims, Benson and Hedges and Parliament, with equity building programs and initiatives to increase their market presence and reinforce brand loyalty. We estimate that the 1993 revenues from these brands are as large as Brown & Williamson's, American's, and Liggett's premium brands' revenues combined. While these franchises are nationally-known and promoted, each has definite regional strengths.

Merit, strongest in the North Central and Northeastern states with shares as high as 5.8, continues its "You've Got Merit!" campaign in print and outdoor advertising, and further leverages this positioning with the "Merit Awards" continuity program.

Virginia Slims' south-central and mid-Atlantic strength provides an excellent base from which to capitalize on its unique style and attitude to reinforce its positioning as the number one women's cigarette using all elements of the marketing mix. Virginia Slims maintains its leading share of female media support with a continually contemporized advertising campaign and equity building program — V-Wear.

Similarly, Benson & Hedges continues to build its "empathy" positioning with "The Length You Go To For Pleasure" ad campaign and leverages this new positioning with events that increase brand awareness. If you can't read the copy on this ad, it says "Ever wonder why she's holding a light? For a great smoke take a few liberties." Benson & Hedges strengths span the south and west coasts of the U.S. A solid share of 6.7% in California provides Benson & Hedges with an excellent springboard for gaining market share across the country.

Finally, Parliament, with its solid 5.1% share in the New York metro area, is extending its successful strategy by running print and outdoor advertising coupled with retail pack promotions and resort activities to appeal to young adult smokers in key markets.

Now I'd like to turn to the discount segment. Based on Nielsen retail numbers, in March, 1993 the U.S. cigarette industry was comprised of 62.3% premium, and 37.7% discount. Overall, the industry's discount category has lost 6.5 share points, and is still declining. While both branded and private label products have lost share, smokers who are buying discount products appear to be making more of their choices based on brand equity rather than just low price. Consistent with consumers' interest in brands, we have been building PM-USA's discount portfolio around brands with equity.

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Our strategy for Basic is to reinforce its equity so it can compete even when it isn't the lowest priced cigarette in the store. Basic maintains a solid media presence and retail promotion schedule through product and incentive offers.

We carefully monitor Basic's share and price in thousands of stores weekly. As of the end of September, Basic's average price was 30¢ higher than the cheapest cigarette in about three-quarters of retail outlets. Even so, we are quite pleased that Basic continues to hold its share of the discount category and is a leading discount brand with a share of 4.5%. So far this year, Basic's 30¢ price differential has provided us with about $180 million of additional margin, proving that the equity built into this brand is delivering solid returns to PM-USA.

We're rounding out our discount portfolio with new brands that will build on our traditional marketing strengths. As you are probably aware, on October 31 we began test marketing a new discount brand in Denver called Dave's. Dave's is designed for smokers looking for quality taste and character in a discount brand. We believe Dave's has strong and unique imagery while providing price sensitive smokers a quality product. We have introduced Dave's to Denver and will soon open a second test market in Seattle. Finally, here's an ad you won't see in test market.

In summary, PM-USA's overall success is reflected in our strong Third Quarter Earnings. Our operating revenues for domestic tobacco reached $2.9 billion, up 16.8% from last year, and operating income rose 40.1% to $863 million, its highest level since we lowered prices on Marlboro and our other premium brands last year.

Domestic shipment volume for this year's third quarter was 57.1 billion units, up 9.6%, compared to a 5.3% increase for the U.S. cigarette industry as a whole. Marlboro's U.S. shipments rose 17.2%, to 36.3 billion units. These volume gains gave us a total shipment share of 44.8%, an increase of 1.7 share points from the third quarter of 1993, while Marlboro's shipment share rose 2.8 points, to 28.5%.

Notwithstanding our successful track record, be assured we at PM-USA are not resting on our laurels. We're proactively using the fruits of our success to continuously improve the foundations of our business. I'd like to spend a few moments discussing what we're doing within our company to ensure that we maintain our competitive edge.

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First, I'm very proud of the productivity improvements we've been able to achieve. Over the past eighteen months, cumulative productivity savings have amounted to $1.1 billion. We've been able to accomplish these enormous productivity gains through a variety of efforts beginning with the redesign of our entire delivery chain:

This massive re-engineering effort begins with the purchasing activities and ends with the sale of cigarettes to consumers. These systems will be fully implemented in the 1996 time frame. To date, our responsiveness and cycle times are improving as returned goods, inventories, materials handling and warehouse expenses continue to decline. Most importantly, these systems are ensuring that consistently high quality and fresher cigarettes are delivered on time, every time, in the market place.

We have also generated savings in Operations such that our manufacturing cost per thousand is down to 1988 levels while our cigarette production per employee is at record levels. We have been running three shifts, seven days a week since this past March. In fact, this year our productions will reach an all time high, 44.1 Billion units more than we did in 1991--with 5000 fewer people. In order to improve manufacturing flexibility and deal with surges in our export volume, we are on schedule to add incremental capacity of 40 billion units at our Cabarrus, North Carolina plant in 1995 and 1996.

During the first half of 1994 we rolled out laptop computers to all PM-USA sales reps. This technology has been critical to our success in gaining customer support for our programs and provides sales reps with the tools to manage their retail accounts. These computers have helped to increase the number of retail calls per sales rep by an average of 25%.

We've bolstered our trade programs to reward wholesalers and retailers who help grow our business. Our Retail Masters program offers the retailer incentives to execute PM programs that maximize our joint profitability by prominently displaying and promoting the best selling brands--Marlboro and our Premium Brands--at the best spots in the store. Currently 117,000 stores are participating in our Retail Masters program.

Our Wholesale Masters Program links trade payments to wholesalers' performance against specific PM share targets and business objectives. Like Retail Masters, this program incents wholesalers to implement PM programs. Last March we expanded this program to require that distributors provide us with their shipment data to retailers. We are receiving data on shipments to over 300,000 retail outlets.

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Besides the continuous improvement of our sales and operations capabilities, we have gained significant productivity in our marketing activities.

We are building a "cutting edge" Promotion Management system that will give us superior planning, tracking and measurement capabilities, thereby enhancing our effectiveness and improving our speed to market.

We've created a considerable competitive advantage in our Direct Marketing sophistication and programs. Over the past year and a half, we've expanded our direct marketing efforts to a more personalized style of marketing. New technologies will allow us to closely monitor consumers' responses and optimize the design of new programs.

We have completely overhauled our outdoor advertising to optimize impact with the best billboard positioning. For print, we have employed state-of-the-art technology to selectively place ads for smokers in nationally distributed magazines.

And most importantly, as an organization, we've heavily invested in creating a "people advantage." We fully intend to be the employer of choice for today's best and brightest.

In summary, there's a heck of a lot that's positive about our business.

-Our share is back on our historical growth trend.

-Marlboro has regained its preeminent position with consumers and is once again growing.

-We have a solid position in discount built on equity.

-We are committed to productivity gains in all aspects of our business.

-We have reduced our manufacturing costs down to 1988 levels.

-And finally, because of all of the above, our net product contribution margins are 85% of the way back to pre-Marlboro Friday levels.

Let me conclude this morning by saying we are vigilantly watching our business to keep our share on its long-term trend and thereby safeguard the long-term profit and cash generating power of our franchises.

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While we celebrate our success, we will not stop challenging ourselves to become better at what we do--selling the best cigarettes in the world to our consumers.

Now I'd like to introduce Hoby Millington, Philip Morris Companies' Vice President and Deputy Treasurer.

Hoby Millington —

Thanks, Bill. And good morning.

International Tobacco

I'd like to follow up Bill's remarks by discussing the dynamic growth of our international tobacco business.

The American blend segment accounts for 97% of our volume outside the United States. This segment has been growing at an annual rate of over 3% per year over the last five years, and we expect growth to continue over the next five years as well.

For perspective, the segment is growing at more than twice the pace of the industry as a whole. And we have been growing at more than twice the pace of the segment, adding volume at an average annual rate of about 10% per year.

This history suggests two major opportunities for the future: we can increase volume with the American-blend segment, which is currently only about 30% of the industry. . . and we can grow even faster, and increase our share of the segment.

And because we supplement our premium brands with strong second-tier international brands like L&M, we stand to profit immensely as smokers around the world trade up.

We are already the American-blend segment's largest and most successful player, accounting for more than 32% of 1993 volume — jumping to about 36% this year.

The next biggest players are Japan Tobacco, BAT, RJR and KT&G, the Korean monopoly. Since the two monopolies are prominent here mainly because of their large domestic shares, they are not yet effective global competitors.

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- This year, our volume has been growing strongly, by nearly 16% in the first three quarters. For the full year, even stripping out acquisitions, our increase should be significantly better than our traditional 5% base business growth.

- One sign of the quality of our business is the strength of our brands.

  - Volume for Marlboro should be up more than 5% this year, with most of the growth coming from Marlboro Lights and Marlboro Medium.

  - In fact, we are seeing shipment gains in eight of our nine top international brands. The only exception is Merit, which is flat.

- Our volume gains are driving strong profit growth, with last year's income up almost 17%, and higher gains in each of the first three quarters of this year.

We are well diversified geographically, with strong and growing positions in each major region.

Our brands make us by far the market leader in Western Europe, and we expect our share to go from last year's 26%. . . to over 28% this year.

- Although the industry has declined slightly since 1989, the American blend segment has gained almost 80 billion units. We have captured more than half of that growth, by adding more than 40 billion units — and with potential for continued gains.

We also see tremendous potential for growth in the Asia/Pacific region, the most economically dynamic region in the world.

- Here the cigarette industry is growing — up 75 billion units, even excluding the massive Chinese market. And note that while our share in Asia is only 12%, we estimate that we have captured 37% of the industry's growth, or 28 billion units -- again, excluding China.

Latin America is one of our fastest growing regions in profit terms. Our bottom line has benefited as the economies improved and consumers began trading up.

Finally, we believe that, over time, some of our success in Asia and Latin America will be repeated in the emerging markets of Central and Eastern Europe.

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- Today, Central and Eastern Europe represent only about 5% of our income. However, we are profitable, and we were even making money before the fall of communism in 1989, something few Western companies were able to do.

- We now have tobacco operations in eastern Germany, Hungary, the Czech Republic, Lithuania, the Russian Republic, Kazakhstan and the Ukraine. Nearly half of our profits in the region come from local production, and in fact we just announced an agreement to build a new cigarette factory in Kazakhstan.

  As just an example of how well these acquisitions are doing, the Czech Republic has become one of our 20 most profitable markets within just a few years.

Summing up, we expect share gains in all of our key markets this year, and above-average volume gains in each of our four major regions.

As you can see, we have grown profitably in each of these regions.

This year, we expect our income gains to range from 15 to 25 percent in each of these four key regions. And international tobacco should become our most profitable business segment within a few years.

International Food

We've been growing internationally in tobacco for almost 40 years now. But we have assembled our international food business in just the past 5 or 6 years.

Basically, we added a small General Foods division to a small Kraft division, and then brought in Jacobs Suchard, Freia Marabou and more than 30 smaller acquisitions.

The sum of these growing businesses outside North America, with 1993 revenues of 9.4 billion dollars, is larger than the total worldwide business of well-known food companies like General Mills, Ralston Purina, Heinz, CPC and Campbell.

In the first half of this year, income growth was slowed by adverse currency movements, and by development expenses in new markets.

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Still, income was up 12.1% in the third quarter, and we expect underlying income growth, excluding acquisitions and one-time factors, of approximately 9% per year from 1991 through 1994.

We are focused on three core categories: coffee, confectionery and cheese. Coffee and confectionery each account for 29% of our revenues.

These three categories, broken up into our seven largest business segments, are all growing.

And we are #1 in most of these segments — with market shares outranking those of our #2 competitors by wide margins, ranging from 1.5 to 1 for spoonable dressings to more than 4 to 1 for our cheese businesses.

We expect continued base-business income growth from new products in established markets, and increased penetration of our international brands in Central and Eastern Europe, the Asia/Pacific and Latin America. This is a young business, and we are just beginning to scratch the surface of its potential.

KGF N.A.

Our North American food business, the largest on the continent, is showing good growth.

This year, our income has grown 5.2%, even though we sold our frozen desserts and frozen vegetables businesses last year.

We have well over 100 brands, 90% of which are number 1 or number 2 in their categories.

Fifteen businesses, which you see listed here, from bakery to syrup, generate approximately 80% of our profits.

In all but two of these categories, we have brands that enjoy the double benefits of excellent margins — above 15% — and category or segment shares above 20% in either the U.S. or Canada, or both. The two exceptions — Post ready-to-eat cereals and Tombstone frozen pizza — are growing rapidly.

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Importantly, more than half of these 15 overall categories have been growing this year. And we are also seeing significant segments of growth, for instance in lunch meats and lunch combinations in processed meats, in refrigerated puddings in the desserts category, and in specialty coffees.

We are also increasing the efficiency of our portfolio of food businesses.

Since 1989 through the end of last quarter, we sold nine businesses that generated an annual total of 30 million dollars in operating income.

Over the same period, we acquired nine lower-revenue, but higher-margin, businesses that should generate combined income of 124 million dollars this year.

That's a 94 million dollar improvement, at a relatively low incremental cost.

Our sale of All American Gourmet, our planned sale of Kraft Foodservice, and other activities we are considering, are part of similar efforts to improve our business portfolio.

Kraft General Foods North America should turn in a decent profit performance this year, comparable to its peer group, and setting a base for better growth in the future.

Beer

Our beer business is posting good results this year, and is making solid contributions to our income growth.

Our shipments have risen nearly 3% this year. Just as importantly, our product mix has improved, with premium-priced beers accounting for more of our volume — 81% of the total in the third quarter, up from 78% a year ago.

Largely because of the better product mix, as well as cost-saving initiatives, operating income is up 12.9%.

The success of our new "ice" beers — Icehouse, Lite Ice and Molson Ice — has more than offset year-to-date declines in Miller Lite. Our three ice products account for approximately half of the segment, which seems to be stabilizing at approximately 5% of the industry.

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Volume for the total Miller Lite franchise, including Miller Lite Ice, is up approximately 3% for the first nine months.

We plan to drive continued income growth through improved product mix, cost savings, international expansion in Latin America and Asia, and of course continued new product introductions.

Just last week, in fact, we announced that we will be rolling out Red Dog nationally, following its successful test here in the Southeast. I hope you will take the opportunity to sample some Red Dog during today's lunch.

Summing up, I should remind you that Philip Morris management has established two goals: business growth and increasing returns to stockholders.

As we have shown this morning, our businesses are in excellent shape. For the first nine months, operating income was up 9.1%, and we expect better for the full year, as domestic tobacco profits continue to recover.

Historically, our business growth has generated phenomenally strong cash flow — 6.4 billion dollars in consumer products operating cash flow last year alone.

Over the past five years, our consumer products free cash flow — cash flow after capital expenditures and dividends — has been almost as much as the comparable figure for these ten major consumer products companies combined.

This strong cash flow has enabled us to accomplish our second goal — building value for shareholders.

- We have raised our dividends by an average of nearly 23% over the past ten years — most recently by 6.2% last February, and by another 19.6% in August. Our current yield of more than 5% is among the highest of the Dow Jones Industrial stocks — and much higher than the average for the S&P 500 stocks.

- We also use our cash flow to buy back our stock. . . and through the end of September, we have spent 7.2 billion dollars to buy our shares, over almost 12 years. And in August, we announced a new, three-year, 6-billion-dollar repurchase program — the largest announced in corporate America this year.

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- In addition, we are investing in selective acquisitions that meet ambitious hurdle rates, to enhance our base businesses or expand our geographic reach. And we are divesting non-strategic or under-performing operations, so that we can re-deploy our assets more efficiently.

- We also consider structural ways to increase returns and improve our business prospects. As you know, our Board of Directors decided not to separate our businesses at this time. I will be glad to answer questions about our decision later, but since we have already explained our reasoning at great length, I will not repeat all the details now.

At the end of the day, we believe that increasing our earnings is the most important way of enhancing shareholder value. That is why business growth is our first priority.

We believe that we have tremendous assets to keep our momentum.

- We have an unmatched portfolio of some of the world's strongest brands. In fact, we have eight brands which each generate more than a billion million dollars in operating revenues. . . and more than 50 other brands that each generate more than 100 million. And that's operating revenues — not retail sales.

- We have the size and scale to market and distribute our products more effectively and profitably than many of our competitors, especially in new markets with promising demographics.

- And we have the resources, in our strong cash flow and credit ratings, to keep building a great company.

[pause]

And now we will be glad to answer questions.

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